

TAX CUT OUTLOOK • WHERE THE JOBS WILL BE • HOW SONY INNOVATES

FEBRUARY 24, 1992

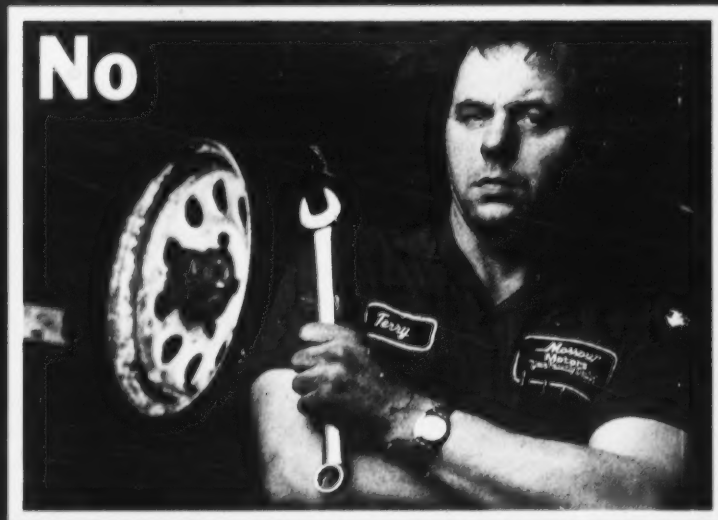
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FORTUNE

ARE YOU

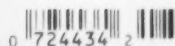


BETTER OFF?



The Big Question for Election '92

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FORTUNE



ABOVE: Terry Roberts, photographed in Fort Worth by Brian Smith, prospered in the Texas oil boom but is now unemployed.

COVER: Smith also took these representative shots: the Schwartz family of suburban Chicago, Su Obman (left) in a rundown neighborhood in Pittsburgh, and Terry Biddle in Elwood City, Pennsylvania.

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ARE YOU BETTER OFF? 38

That question from an earlier campaign will haunt Bush this year. The short answer: You probably feel worse off than you are. Who truly has lost ground over the past dozen years? Education equals prosperity—the less schooling you have, the farther you are likely to have fallen. *by Lee Smith*

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Look for plenty of opportunity but less security. More people will work in small companies and at home. Those who get the good jobs will be skilled, adaptable, and able to keep learning. *by Louis S. Richman*

"I'm a Republican, but the party isn't helping those that put them in office. It could be that we need some New Deal programs." PAGE 38

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Hardly anyone wants to spend a fortune on clothes anymore, so big-name fashion designers are racing downscale to attract newly price-conscious customers. *by Susan Caminiti*

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Its engineers are the most prolific and innovative on the planet, turning out an average of four new products a day. One secret: Hire generalists and turn them loose. *by Brenton R. Schlender*

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The unassuming inventor and founder is revered in Japan much as America admires Thomas Edison.

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By abandoning its famous trademark, the company hopes to beat the Japanese. *by Patricia Sellers*

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The top credit-reporting firm got a good-guy image by catering to consumers. *by Laurie Kretchmar*



"All my friends think I'm crazy."

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"There hasn't been a decade in living memory when the population of potential entrepreneurs has been bigger."

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"We're going to dabble in the tax code this year. It's going to happen."

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"The key to success for Sony, and to everything in business and technology for that matter, is never to follow the others."

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"You have to have a culture that allows people to hustle."

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"I prefer the slight risk of being robbed by a thief to the certainty of being robbed by a state bank."

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EDITOR'S DESK



FORTUNE's foursome of Washington watchers (from left): Ratan, Reilly Dowd, Smith, and Norton

ARE YOU BETTER OFF today than four years ago? Can you keep your job or find a new one? How about your kids? These questions are on the minds of Americans—and the answers will go far in deciding who is the next U.S. President. To assess the mood and get at the truth, our Washington bureau and a team from New York interviewed more than 50 economists, demographers, politicians—plus scores of people like you and me. The result: three provocative articles that get at the heart of why so many of us seem so gloomy.

At FORTUNE, we are blessed with journalists who have covered economic policy for years. Says Richard Kirkland, who oversees our political coverage and edited the lead cover story (page 38): "Following the ups and downs of Beltway shenanigans is not what we have a Washington bureau for. Our grist is economics—and that's issue No. 1, 2, and 3 in this election."

Washington bureau chief Lee Smith traveled to Texas and Pennsylvania talking with unemployed auto workers, successful entrepreneurs, and worried managers. While he found that, statistically, Americans have held their ground since 1988, many feel worse off. Says he: "There's a sense of disquiet about the long-term future." Adds Suneel Ratan,

the story's reporter: "Parents are deeply worried about what kind of jobs their kids will get when they're out of school."

Many *should* worry. In "America's Tough New Job Market" (page 52), writer Louis Richman argues that unskilled Americans will be left in the economy's dustbin. Says Charles Burck, who edited the article: "Lou makes clear that education and training must become national priorities." Nor is the prospect for tax reform encouraging, according to Rob Norton, who detects in the latest proposals "an odor of unreality and flimflam that's strong even by Washington's standards" (page 63). All our work was informed by reports from Ann Reilly Dowd, who has been on the hustings with the presidential hopefuls, keeping abreast of their latest turns in rhetoric and reality.

Okay, now cheer up. I think you'll enjoy the fun-filled tale of Wall Street wonder Jim Rogers, who hung up his spreadsheets to tour the world by motorcycle (page 104). The piece comes with investing tips. Rev your engines and roll.

Marshall Loeb

MANAGING EDITOR

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CEO Joel Dorfman centralized sales at Thorn Apple Valley.

BEST AMERICAN CITIES FOR STOCKS

Most investors who back the home team by putting their money in locally headquartered corporations benefited from the overall stock market increase of 1991. The price of shares of the FORTUNE 500 industrial and Service 500 companies rose, on average, 40%.

Some big-company locales did considerably better than others, though. FORTUNE's second annual survey of cities with two or more such companies shows the Detroit suburb of Southfield, Michigan, as the biggest winner. Share price increases of sausage maker **Thorn Apple Valley** and of **Federal-Mogul**, an auto parts producer, gave Southfield stocks an average increase of 196.5%.

Thorn's 384% rise contrasts dramatically with 1990's, when the stock rose 39.3%. One reason for the change: a big turnaround. In 1990 the company lost \$1.8 million on sales of \$670 million, vs. a \$32 million profit in 1991 on sales that increased 22%. Security analysts credit President Joel Dorfman, 40, for what happened. He centralized the sales force and concentrated on high-margin products like smoked sausage. He even got more meat off

HOW TOP HOMETOWNS SCORED

CITY COMPANIES	Stock price change* during 1991
SOUTHFIELD, Michigan Thorn Apple Valley (meat products) up 384.6% Federal-Mogul (auto parts) up 8.3%	+196.5%
SUNNYVALE, California Advanced Micro Devices (microprocessors) up 259.0% Amdahl (computers) up 11.5%	+135.2%
WILSON, North Carolina Standard Commercial (tobacco) up 182.8% BB&T Financial (banking) up 38.6%	+110.7%
BLUE BELL, Pennsylvania U.S. Healthcare (HMOs) up 111.9% Unisys (computers) up 65.0%	+88.5%
OAKLAND, California American President (transportation) up 166.1% Golden West Financial (S&L) up 77.2% Clorox (soaps) up 12.3%	+85.2%

*Stocks traded under \$1 per share not included.

the hogs. Did Thorn's location help at all? Says Dorfman, whose father, Henry, 70, remains chairman: "It's easier to attract talented employees to Southfield than Detroit." Thorn has 60 executive and clerical types in Southfield and employs some 1,000 in its two Detroit processing plants.

Location may mean much more in Sunnyvale, part of California's Silicon Valley. It was the second-best city for stocks, thanks mainly to the 259% increase in the price of **Advanced Micro Devices** stock. Says CEO Jerry Sanders III, 55: "Sunnyvale is a microcosm of what America was and should be—a land of opportunity."

Like Thorn, AMD enjoyed a turnaround. It earned \$145 million in 1991, compared with a \$54 million loss the previous year. Last year's sales rose 16%

to \$1.2 billion. Driving this: the company's line of knockoff 386 microprocessors, the brains of most personal computers. AMD now has about 30% of that market, once the exclusive domain of Intel. —Rick Tetzell

mentary School for good health care and study habits. Kids win for brushing their teeth, playing baseball, reading books, avoiding videogames, and attending all their classes. Parents keep tab.

Prizes include a backpack, a watch, and a chance to win a new bicycle. Not million-dollar items—but the program could save that much in lifetime health care costs and productivity. Says David Hurd, Principal's CEO: "The idea that we can light a fire at an early age is attractive." Adds school principal Mike Schaumburg: "We're working with children who don't have many tangible rewards. I endorse anything that gets them excited."

Some 75% of the students enrolled in the first ten days. Among them: Jamina McNear, 9, who wants to be a lawyer and an NBA player. She believes the

program will "help my mental skills, my social skills, and my nutritional skills. And in my future, when I'm an adult, I won't have

insurance problems." —R.T.

THE BIGGEST LOSER

GLENDALE, California Glenfed (S&L) down 27.5% Citadel Holding (S&L) down 6.9%	-17.2%
--	---------------

PAY FOR PLAY AND ACTING HEALTHY

An incentive program designed by **Principal Financial Group**, a Des Moines insurer, gives prizes to second- to fifth-graders at the Longfellow Ele-

THE AMERICAN CARS GERMANS LOVE

The sexual initiation of a generation of American males has helped to make the 1957

Student McNear and CEO Hurd share an interest in good health.



Chevrolet Bel Air No. 1 among the growing number of Germans who collect U.S. cars made in the 1950s. So says Michael Fuchs-Rösner, who sells such classics in Wiesbaden. Maintains he: "Most American men had their first experience in the back seat of a Bel Air." If it worked for them, the logic apparently goes . . . Appropriately, Fuchs-Rösner also sells back seats as a separate item. Like other dealers, he visits auctions in California, Florida, and other states to buy the cars that are so, uh, hot in Germany.

Fuchs-Rösner's customers include Peter Rossbach, 56, who runs his own construction equipment repair company in Munich. He has nine U.S. classics, including a 1955 DeSoto (for which he paid \$23,750) and a 1958 Oldsmobile limousine (\$18,125). Rossbach also paid \$9,375 for the back seat of a 1960 Cadillac Coupe De Ville, which he uses as a sofa. Says he: "All my friends think I'm crazy, but for me all this is a real hobby." —Miriam Widman



Herr Rossbach, collector of American classics, also uses a Cadillac back seat as a sofa.

be concerned. Shopping there won't be noticeably different, at least not right away. Shelves should be filled with new spring merchandise now that suppliers like Liz Claiborne know they'll be paid for future shipments. Still in question, of course: how much those suppliers will get of the \$275 million Macy's owes them for goods shipped before the filing.

But customers may find it tougher to locate Macy's stores, which, with I. Magnin, Bullock's, and specialty shops, now total 251 outlets. Security analysts expect a replay of what the Federated and Allied retail chains did after going into Chapter 11 in 1990. They closed or sold 42 of their 260 stores and are set to emerge from bankruptcy by the end of February. —Susan Caminiti

A BRIDE'S DOUBTS ABOUT MACY'S

■ And you thought the only people nervous about R.H. Macy's filing for Chapter 11 protection were its banks, bondholders, and suppliers? At least one bride-to-be who recently signed up for the department store giant's bridal registry has the jitters too. "How do I know the store is going to have all the things I've picked out?" wonders the future Mrs. James Figliuolo of Hoboken, New Jersey. "I have enough to worry about with this wedding. I'm switching to Fortunoff."

Macy's says she need not

STOCK OPTIONS ENDANGERED

■ Bad news for anyone who hopes to get employee stock options: Your chances just slipped a notch. It's nothing personal. The ever hotter issue of CEO

pay has reignited a debate over what those options are worth—and how much they really cost the companies awarding them.

Options given by an employer as extra compensation are a wondrous thing. When the company's stock rises, they can give the employee a huge gain—which the company could have kept for itself by hanging on to the stock. Many accountants therefore think the value of stock options is one of those noncash charges (like depreciation) that should be deducted from income. Yet accounting rules decree that companies need not deduct *anything* when they give away options. Pay a CEO a \$1 million bonus, and you reduce pretax profits by a million. Give him options that turn out to be worth \$10 million, and reported profits don't fall by a dime. No surprise, companies have been shoveling options to top executives (see table for examples).

Most companies award options down through the ranks of senior managers and even below as long-term incentives. PepsiCo, Du Pont, and a few

others have given options to every full-time employee. But CEOs get the most, and as a result, options now constitute about 33% of a typical CEO's compensation. Directors have been even more tempted to do

this when a CEO's pay is under fire. Reason: The SEC does not require a company to value grants when reporting executive compensation.

All that may change. SEC Chairman Richard Breeden says companies should report a value for option grants because without it shareholders have no clear idea what executives are paid. The Financial Accounting Standards Board, which the SEC oversees, expects to reopen the question of how to value and report option grants—a matter it inconclusively examined in the 1980s amid a paroxysm of CEO anxiety.

New rules could have a powerful effect. Pharmaceuticals maker Rhône-Poulenc Rorer of Fort Washington, Pennsylvania, reported a \$1 million profit in 1990, for example. But if the value of CEO Robert E. Cawthorn's 123,585-share option grant had been deducted, that profit would have become a loss of around \$2 million. Such a change could fast curdle directors' love affair with options for top executives and everybody else.

Rewriting the rules could take months or years. And considering what chief executives have to lose, it won't happen without a fight. —Geoffrey Colvin

WHAT SOME COMPANIES GAVE OUT

Company	Options granted to all executive officers in 1990	Gains as of 1/29/92
Ranbax International	2,775,000	\$37,047,875
H.J. Heinz	950,000	\$5,106,250
Benchmark	1,118,780	\$21,704,015
PepsiCo	1,504,944	\$20,075,952

MARLBORO MAN LOSES APPENDAGE

■ Philip Morris's Marlboro Man is not about to disappear into a Parisian sunset. To fight

Those smokeless images promoting clothes and travel are already working well in Italy, where cigarette advertising has been banned for three decades. A poll of youths ages 11 to 15 showed that Marlboro had the highest awareness of any cigarette brand.

The EC will consider an all-Europe ban on cigarette advertising this month. Philip Morris clearly hopes that if passed, the law will have a similar loophole allowing the Marlboro Man to push cigarettes, however subtly—even if his own smoke has gone out.

—Carla Rapoport

WHY JAPAN BASHING IS HYPOCRITICAL

■ The auto executives, politicians, and consumers working themselves into an anti-Japan frenzy ought to put down the sword and pick up the mirror. No question, Japan's import barriers to goods such as rice and the incestuous links between its industrial giants stack the deck against foreign competition. But James Bovard, a policy analyst at the Cato Institute and author of *The Fair Trade Fraud*, points out that the U.S. is no saint when it comes to free trade. He estimates that U.S. consumers pay an extra \$80 billion a year to protect weak industries from international competition through thousands of tariffs (see table for examples), so-called voluntary restraint agreements, and such restrictions on foreign investment as a 25% limit on U.S. airline ownership and 49% of fishing companies.



Cornell grads: the Derrs and daughter Karen

CHIEF EXECUTIVES RAISING FUNDS

Name	School, Class
Robert Day, Trust Co. of the West	Claremont McKenna College, '65
Stanley Gault, Goodyear	College of Wooster, '48
Lloyd Johnson, Norwest	Carleton College, '52
William McCord, Enserch	Texas A&M University, '49
John McCoy, Banc One	Williams College, '65
Frank Popoff, Dow Chemical	Indiana University, MBA '59
Robert Pritzker, Marmon Group	Illinois Institute of Technology, '46
Richard Thomas, First Chicago	Kenyon College, '53
Roy Vogelios, Merck	University of Pennsylvania, '50
Leslie Wexner, The Limited	Ohio State University, '59

Equating buying Japanese products with stealing American jobs "goes to the line—it's worse than a crime, it's a blunder," Bovard argues. "There's an effort to tar and feather any Japanese company crossing the border into this country. But a lot of them provide benefits and teach invaluable skills to our workers." Indeed, the most recent Commerce Department figures show that businesses with Japanese majority ownership employ more than 360,000 workers in the U.S. (see table for a sampling).

Many economists, including *Fortune's*, agree that the road back to American competitiveness will not be hedged with trade barriers. Rather, the productive path is paved with more savings, more investment in research and development, and much more education.

—Antony J. Michels

CEOs HELP THEIR ALMA MATERS

■ Colleges are reeling from a financial squeeze so serious that it often takes just the right kind of fund raisers—including alums who have made it to the corner office—to get the endowment money rolling in. Lots of CEOs are already trustees of the colleges they attended. But more are volunteering for extra duty, which usually means picking up the telephone and dialing fellow alumni and other possible benefactors for dollars.

Among them is Chevron's Kenneth Derr 55, who received a degree in mechanical engineering at Cornell University (class of '59) and an MBA (1960). He specializes in putting the arm on alums on the West Coast (Chevron is in San Francisco). Cornell's target: \$1.25 billion, of

which some \$600 million has already come in. The school won't divulge Derr's share.

Why is Derr helping out? Says he: "I have a special fondness for my college. While I was there, I went on a blind date with somebody who ultimately turned out to be my wife." Kenneth and Donna Derr were married in 1959. She earned a degree in human ecology the following year. Their daughter, Karen Gilbert, is also an alum (MBA, class of '85).

Mark McCormack, who heads International Management Group, the world's largest sports marketing organization, wants to raise \$150 million for William and Mary, where he earned a degree in French in 1951. Says McCormack, 61: "I try to give something back to the place that gave me so much when I needed so much." (For other CEOs who think the same way, see table.)—Jessica Skelly von Brachel

NOW HEAR THIS

■ VICTOR H. PALMIERI, 62, turnaround artist brought in by New Jersey regulators to rehabilitate crippled Mutual Benefit Life Insurance:

"Strategies are okayed in boardrooms that even a child would say are bound to fail. The problem is, there is never a child in the boardroom."

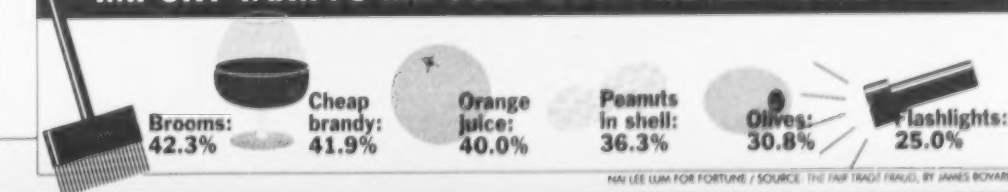
■ ALLAN GILMOUR, 57, executive vice president of Ford Motor:

"Product development time is going to be a great competitive battleground in the 1990s—as intense, I would say, as the revolutionary push for quality in the Eighties."

JAPANESE EMPLOYERS IN THE U.S.

COMPANY	Number of jobs
Matsushita Electric	21,250
Sony	18,000
Toyota	16,400
Honda	13,700
Hitachi	8,500
Toshiba	8,500
Nissan	8,300
NEC	8,000
Mitsubishi	7,300
Fujitsu	5,000

IMPORT TARIFFS IMPOSED BY A PROTECTIONIST U.S.



should be strong enough to withstand the dampening effect. But Cornell University behavioral economist Richard Thaler worries that it will reduce savings in the years ahead. Says he: "This is short-term thinking at its worst." The reason people overwithhold is that they want it that way, he says—"They like getting a lump-sum refund. It helps them save." Now they won't have this

A behavioral economist calls Bush's withholding ploy "short-term thinking at its worst." It could reduce savings in the year ahead.

help. Nobody knows how many are likely to bother with filing the complex W-4 form required to undo the changes.

For the rest of his game plan, President Bush faces off with a feisty Congress. De-

bate is likely to drag on while Congress settles on the price it will extract for his long-sought reduction in capital gains taxes. Still, the election makes a compelling deadline, so fiscal 1993 might actually start with a budget in place—a rarity in recent years.

Whenever the budget does emerge, it will probably include some of the less

ECONOMIC INTELLIGENCE

WHO ARE THE RICH?

■ *Lady Hunstanton: "I am afraid in England we have too many artificial social barriers. We don't see as much as we should of the middle and lower classes."* —From *A Woman of No Importance*, by Oscar Wilde.

Despite gestures toward them by President Bush, the rich don't have many outspoken friends in Washington these days. Bush aimed most of his State of the Union proposals at the middle class. In refashioning his ideas, the Democratic-controlled Congress will surely tilt them further in that direction. It may very well try

to raise taxes on "the rich," a notion that resonates so nicely on the hustings.

What kind of people would get hit? To most politicians, "rich" seems to start with a household income of around \$100,000 a year. Included, of course, are the likes of Madonna and Michael Jordan. But about 2.5% of American households qualify, among them some 40% of FORTUNE's subscribers (congratulations). Most top-tier earners are in the \$100,000 to \$200,000 range. So even if you're fairly ordinary, you might still be smart, hard working, and lucky enough to be "rich"—at least for tax purposes. In con-

trast to Lady Hunstanton, however, you likely view yourself as middle class, having done very middle-class things to get where you are. Namely, according to U.S. census data, you probably went to college, became a manager or professional, worked full time, and married someone who works too.

There's also about a 40% chance you live in California, New York, New Jersey, Connecticut, or Massachusetts—states where your dollars don't go very far because of high housing costs and taxes. Runzheimer International, a consulting firm in Rochester, Wisconsin, calculates that a person in Los Angeles needs \$100,000 for the lifestyle an income of \$73,000 buys in Dallas. But in much of Washington's eyes, the Angeleno is undertaxed. —Joseph Spiers

1978. Nonstop jet service, as they argue in the current *Sloan Management Review*, is "better than ever."

Operations research professor Arnold Barnett and his associates tested the common complaint by looking at 500 randomly chosen routes between the nation's 100 busiest airports. In 1977, they found, nonstop jet service was available on only 17% of these routes. By 1989 the share had risen to 27%. Reason? Besides the greater competition that deregulation brought, the growth of the hub-and-spoke system produced a major expansion of nonstop service between hubs. A further result: Flying is safer, since nonstop flights are less risky than those that make stopovers. The researchers didn't count the expansion of commuter flights by prop-driven planes, which surely would have revealed still greater gains in convenience—though not safety.

Their study complements earlier work by a National Academy of Sciences panel, which found that deregulation has increased competition, expanded service, kept fares from rising as fast as costs, and cut accident rates. But the panel also recommended against further mergers or acquisitions where carriers serve the same areas or share a hub. —J.S.

RECESSION BENCHMARKS

Who can remember a year that produced a more vivid crop of economic comparisons with the past than 1991? Here's FORTUNE's tally so far. If you can find a pattern, please write us.

Inflation CPI 3.1%, lowest since 1986

Housing starts 1,014,700, lowest since 1945

Fixed mortgage rate 9.25%, lowest since 1978

Housing affordability best since 1977¹

Unemployment, December 7.1%, highest since June 1986

Sales of U.S. cars and trucks 12.3 million, lowest since 1983

Average age of cars on roads 8 years, highest since 1950

Factory orders for durable goods down 4.6%, worst decline since 1982

Consumer confidence lowest since 1982²

Stock prices, adjusted for inflation highest since 1968¹

Federal Reserve discount rate 3.5% at year-end, lowest since 1973

Trade deficit \$65 billion, lowest since 1983

Federal deficit as % of GDP 4.8%, highest since 1986

Gross federal debt \$2.7 trillion, a record

Business debt as a share of GDP 62%, lowest since 1985

Business failures 88,000, a record

¹ 115 on National Association of Realtors index. ² Conference Board index: 68.5.
³ Based on ratio of S&P 500 to consumer prices: 1991=2.76; 1968=2.84.

REALLY, AIR TRAVEL HAS IMPROVED

■ "The hassle of the hub and spoke is a major negative," says air passenger Frank Shrontz. Though he happens to be CEO of the world's largest aircraft manufacturer, Boeing, plenty of ordinary passengers would agree. Trouble is, argue researchers at MIT, these fliers are measuring today's experience against a mythical golden era predating deregulation in

ARE YOU BETTER OFF?

That question from an earlier campaign will haunt Bush this year. The short answer: You probably feel worse off than you are. What separates the nos from the yeses? Education. ■ *by Lee Smith*

ARE YOU BETTER OFF than you were four years ago? Remember, that was the question with which candidate Ronald Reagan taunted—and ultimately devastated—President Carter a dozen years ago. You can bet the Democrats will revive that gibe this time around in hopes of achieving the same election result.

They are likely to have a point. Accord-

ing to a CBS News poll taken in late January, 32% of Americans declared themselves worse off than in 1988, while just 24% felt better off. (The rest felt about the same.) True, if a decent recovery surfaces by summer—as *FORTUNE* and most economists expect—voters should be feeling a little cheerier when they go to the polls in November.

Still, the picture right now is bleak. Since

January 1989 growth in disposable personal income per capita has been flat—OK, to be fair, it's up 0.00007% compounded annually. The unemployment rate is currently 7.1%, nearly two percentage points higher than when Reagan rode out of office. Even using the forecast in the White House's latest budget, U.S. GDP during the Bush tenure will be up just 1.2% annually—the smallest four-year increase since Harry Truman's first term.

What's different this election year—are you listening, candidates?—is that simply comparing 1992 with 1988 is too limited an inquiry for most voters. So, since Christmas, *FORTUNE* has interviewed scores of people in occupations ranging from asset manager and architect to salesclerk and unemployed electrician. They live in Baltimore, Chicago, Fort Worth, Pittsburgh, and Los Angeles, the kinds of places where the election will likely be decided.

What these Americans are really worrying about is where they—and the country—are headed. In the 1950s and 1960s, U.S. GDP rose at a rapid clip and lifted all economic boats, the skiffs as well as the yachts. Those heady times ended abruptly with the oil shocks and stagflation of the 1970s. Reagan seemed to have the machine running again, but now it's sputtering. Was he on the right track, and is this just another recession? Or is it something worse—the final curtain call for a whole set of postwar expectations about income growth and America's place in the world? Is there a political leader out there who can make sense of it all and point the way?

Anxiety reigns. Consider the people pictured in this story. Probably no more than 20% or so of Americans will instantly identify with Donald Schwartz, 44, who

MAYBE

SU O'BMAN, 29, an engineer for a small East Pittsburgh high-tech company, is making more than ever—over \$35,000. But she's anxious about the future.



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YES

DONALD SCHWARTZ, 44, at home with wife Judy, daughters Sarah and Heather, and cocker spaniel Snickers, survived a merger between two big banks and now earns over \$100,000 a year running a Chicago subsidiary that trades commodity futures.

declares, "I'm unequivocally better off." Many who take that view undoubtedly come from the upper fifth of U.S. families. This group's pretax family incomes currently start at \$67,000 and go up. Since 1976 the average after-tax earnings of this crowd, adjusted for inflation, have jumped 32.5%. That's a far steeper rise than in any other income category (see chart).

Armed with a doctorate in agricultural economics from Purdue University, Schwartz took a job with a Chicago brokerage firm in 1980. He sure wasn't in the top fifth back then. Eight years later Manufacturers Hanover hired him to run its futures and options business. When Manny Hanny merged with Chemical Bank this year, Schwartz survived. He says, "Of the 40,000 or so people in the combined banks, I was the only one who knew how to run the futures business."

As president of Chemical Futures & Options, Schwartz earns more than \$100,000 a year (he'd rather not be precise). He and wife Judy reside in the upper-middle-class suburb of Barrington, Illinois. That's outside Chicago, but it sounds like over the rainbow. "My two daughters are getting a superior education in the public schools," he says. While

REPORTER ASSOCIATE: *Suneel Ratan*

most people have been forced to increase their workweeks to maintain their way of life, Schwartz has trimmed his by about ten hours to a maximum of 60.

Almost as many citizens will identify with the downward career trajectory of Terry Biddle, 41—a definite "no." Biddle graduated from high school in Elwood City, Pennsylvania, in 1969 and went to work for Babcock & Wilcox's steel tubing plant in nearby Beaver Falls. As a furnace tender, he earned \$28,000 or so annually by the early 1980s, traded in his Pontiac every three years, and had health insurance for himself, his wife, Linda, and three children that covered everything from eyeglasses to brain surgery.

But in 1987 the factory closed, largely because demand for oil well pipe had sunk. Biddle delivered pizza at \$3.50 an hour for a time, studied auto mechanics at the commu-

THE ECONOMY

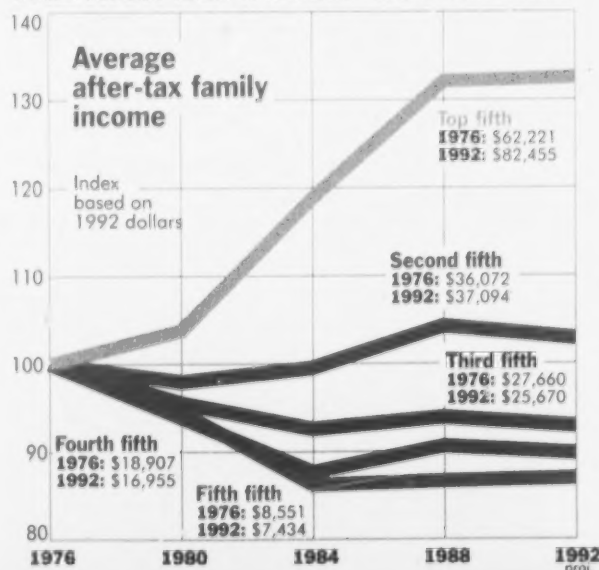
nity college, and took a job in the local Ford dealer's repair shop. He now earns about \$18,000 a year, which after inflation gives him about half the purchasing power he once had.

NOW MEET Ms. "Maybe"—Su Obman, 29. Obman earns more than \$35,000 a year as a field engineer for Vocollect, a small maker of hand-held, voice-activated computers in East Pittsburgh. Though she is better off than ever, she's scared. Failure surrounds her. Not far from Vocollect's offices are abandoned red-brick factories where Westinghouse once made electrical equipment. Vocollect shares an office building with the state employment commission, where more and more job seekers appear daily. Says Obman: "Every day it seems I have to park farther back in the lot."

In their minds tens of millions of Americans drive with Obman every morning into a parking lot crowded with the jobless. The employed-but-jumpy reduce their spending. Three years ago Obman bought a three-bedroom ranch house for \$65,000. "I wouldn't make that kind of investment now," she says. Nor does she intend to replace her 1986 Buick before it drops dead. She is relatively sure her job is secure for the next six months, so she is using all her extra cash to pay off the debt on the carpeting and furnishings she bought to decorate her house.

Even those who are flying high have the shakes. Some call the sensation "wing walking" after the air show stunt in which the acrobat edges along the lower wing of a bi-

THE RICH DEFINITELY GOT RICHER



FURTHER CHART SOURCE: CONGRESSIONAL BUDGET OFFICE

plane in flight. The first rule of wing walking is that you don't let go of one strut before grabbing the next. In this economy, no matter how unhappy you are, you don't quit one job without the next firmly in hand.

Plenty of people hail this new caution as a welcome revival of old-fashioned common sense. "It's time to get away from charity balls and designer jeans," says Lowell Duncan, 47, of Fort Worth, marketing vice president for Tandy Corp. "Levi's work real well." Duncan is better off. His salary keeps growing at 6% or more a year, enough to keep him ahead of inflation, but asceticism is in the air. "It's what I read, what I hear," he says. A few years ago Duncan would have thought about sending his son, Blair, 24, to top-of-the-line Stanford for his MBA (tuition: \$17,757 a year). Now he's encouraging Blair to look at the very good University of Texas (tuition: \$1,080).

Even if a majority of Americans feel edgy now, are they really worse off than they were 12, or 16, or 20 years ago? First, consider the non-pocketbook factors, since well-being involves more than bank accounts. How do you value the end of four decades of Cold War? Though the economic gains from lower defense spending are still to come, this epochal change has already lowered the risk of Armageddon—a definite improvement. But few celebrate the victory as enthusiastically as it deserves. People are inclined to shrug it off, observes Treasury Secretary Nicholas Brady, "as if it were no more than winning the World Series."

Medical care and the environment offer pluses and minuses. No, we can't afford to keep spending an ever higher share of GDP on health care, but don't forget that, AIDS aside, mortality rates have declined for almost all diseases—and accidents as well. Former Senator Paul Tsongas of Massachusetts was stricken by lymphatic cancer in 1983. If that had happened a decade earlier he would most likely be dead now. Instead, he is running for President.

As for the environment, rivers are cleaner by and large. A third less oil was spilled in U.S. waters in the 1980s than in the 1970s, the *Exxon Valdez* accident notwithstanding. There is less carbon monoxide in the air, but more ozone. So Los Angeles, Denver, and some other cities choke on smog more often.

The quality of urban life in America has clearly gone downhill. Though Reagan and Bush both declared war on drugs, the enemy hasn't given up much ground and may have gained some. Says Terry Gould, a di-

rector of Action-Housing, a Pittsburgh social agency: "A decade ago we didn't find babies in apartments where all the furniture and food had been sold to buy cocaine. Now we do." Violent crime has jumped 12% since 1980, a statistic that will surprise no one. In the 1970s, unless you were directly involved in the drug trade or some other risky business, you were likely out of harm's way. In 1992 you can be shot walking a high school corridor or driving a freeway.

STILL, whatever the data show on these issues, the 1992 election campaign will likely focus on and be decided by paycheck issues. No one-size-fits-all set of numbers can describe how 250 million people have fared, of course. And these days the statistics are more mixed than usual. Get ready for speech writers and spin doctors for Bush and his Democratic opponent to chop the figures more ways than a Cuisinart.

Want to make the case that the Reagan and Bush years have been great? Here are your ingredients:

Even in recession 118 million people are employed, 97,000 fewer than when Bush took office but almost 17 million more than when Reagan started. Inflation is a trifling 4%. Since 1980 the income of the average

American family, adjusted for inflation, has risen 11.4% to \$33,722. That's \$3,453 higher than when President Carter left office.

The prime interest rate is back to where it was in 1977—before inflation took off. As a share of family income, mortgage payments for a median-price house have dropped from 33% in 1980 to 20% currently, which means that more people can afford to buy houses—even without the new tax breaks Bush is touting. Individuals who invested \$10,000 in Standard & Poor's basket of 500 stocks when Reagan took office in 1981 held shares worth \$16,000, after inflation, at Bush's inauguration. Their value has since soared to \$19,300 as of January 28, when the President made his latest State of the Union address.

Now the rebuttal:

Average income has risen mostly because it has been hoisted up by the huge gains of those on the top fifth of the pile. The wealthy profited handsomely from the tax cuts of the early Reagan years. Mergers and acquisitions that put lots of ordinary people out of work made investment bankers—and plenty of CEOs—rich. Generous and tax-deductible corporate medical plans have helped doctors thrive.

Among families in the next rung down the income tower—those making \$46,000

YES

BETTY JEAN MURPHY, 50, a divorcee, had four children, a BA, and an obsession with success in 1980. Today her thriving company develops low-income housing in Baltimore.





NO

TERRY ROBERTS, 51, of Fort Worth, lived high a dozen years ago—until the company he owned went bust. Out of work again, he still helps support his daughter and granddaughter.

to \$67,000—average after-tax incomes have inched up 0.5% a year since 1980. But that's mainly because Mrs. Rodriguez has gone to work three days a week as a bookkeeper to plump up the flattened wages of her husband, the utility company supervisor. Are such families happier now? Well, she hates leaving the kids with a babysitter, but the knowledge that Biloxi Boxes couldn't function without her is pleasing.

In families whose main breadwinner gets paid by the hour, two wages have become essential just to keep from falling further behind. Ann Sessums, 45, of Boyd, Texas, is looking for clerical jobs because her husband, a carpenter, can find enough work to fill only four days a week. Meanwhile, says Mrs. Sessums, "since 1980 the electric bill has gone from \$50 a month to \$225." Overall, weekly wages for private-sector workers

who are not supervisors have fallen—in constant dollars—from \$411 at the end of the Carter Administration to \$369 at latest count.

Those at or near the bottom of the heap—the woman who vacuums the office at night for minimum wage plus a tad, say, or the person with no job at all—may be doing slightly better than their incomes alone indicate. Low- or no-income women with children get quite a lot of assistance in the form of food stamps, Medicaid, and rent support that doesn't show up in government reports, and a larger share of low-income Americans qualify for those programs these days. Even so, in many cities the payments have recently been rising more slowly than inflation. In New York City a mother with three children receives up to \$577 a month, 15% less in real dollars than in 1988.

If all that complexity still leaves you hungering for a simple answer to this endlessly debated question, here's the best we can do. Have a majority of American families seen their incomes improve since 1980? Yes; otherwise the median family income, by definition, could not have risen, and it has. On the other hand, it hasn't risen much. From 1980 to 1990 median family income, before taxes but adjusted for inflation, increased at a compound annual rate of just 0.67%. That's not much better than the 0.54% rate of the 1970s. Nor is a return to the heady pace of the 1950s and 1960s, when median family income rose at a 3% compound annual rate, anywhere in sight.

WHAT'S ALSO CLEAR is that a distressing gap between the rich and the poor opened in the 1980s. But what's driving that division is not changes in tax policy, as some critics suggest, but differences in education. Simply put, the more schooling you have, the more you prospered in the Reagan-Bush years. That observation will bring bitter laughter from the MBA who just lost her middle-management job or the parents who are still feeding the recent law school graduate in whom they have invested \$100,000-plus. Still, don't confuse a temporary recession with a long-term trend.

Over the past dozen years the returns to education have been impressive. Education clearly underpinned much of commodity expert Schwartz's success. On average a 30-year-old with a college degree now earns 10% more in real dollars than his counterpart in 1980, says University of Maryland economist Frank Levy.

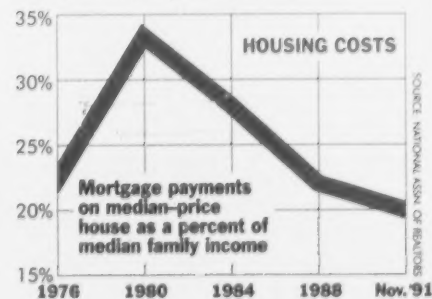
Workers with degrees are mobile, or at least think they are. Tom Wittenschlaeger, 35, an Annapolis graduate, is a nuclear engineer and manager of corporate market

THREE MEASURES OF WELL-BEING—AND THREE DIFFERENT ANSWERS

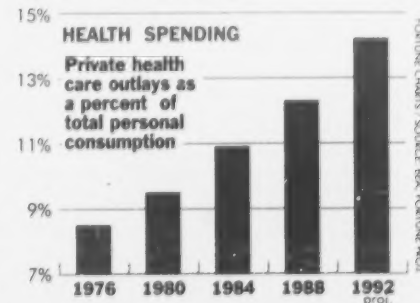
Better than in '80 at least



Better than you think



Never been worse



research for Hughes Aircraft in Los Angeles. He is almost cocky. "If things turn sour at Hughes, I don't think I'd have a terribly difficult time finding another job," Witten-schlaeger says. "If you look at those who feel otherwise, you'll find people who came out of the education system with lower skills and a poorer work ethic."

Even the fall in value of his four-bedroom house in Orange County—from a high of \$515,000 a couple of years ago to about \$415,000—doesn't rattle Witten-schlaeger. Says he: "If it were to drop below what I'd have to pay for the same house in St. Louis, I'd be shocked. But I don't see that happening in my lifetime."

Female workers have enjoyed the same higher returns from higher education. In the 1980s the median income of all women in the workplace, including part-timers, rose \$1,750 in constant dollars to over \$13,250. The income of women with a college degree rose from \$16,700 to \$22,500. The median income of black women col-

lege graduates in 1990 was even higher, \$26,700. (That's vs. \$40,300 for all college-educated men.)

In 1980, Betty Jean Murphy of Baltimore was a divorced black woman with four young children, the profile of a ghetto casualty in the making. But she also had a BA from New York City's Hunter College and a real estate license. "I wanted desperately to make good," Murphy, now 50, recalls. "I read everything I could about housing development and made 10,000 phone calls and thought constantly."

She found her niche. Murphy buys Baltimore city property, such as an abandoned school she picked up for \$75,000, and turns it into housing for low-income tenants, most of whom receive federal rent subsidies. (Nationwide some 4.6 million families get such help, com-

TOM WITTENSCHLAEGER, 35, a Hughes Aircraft executive, remains confident—though the value of his California home is down \$100,000.

YES

pared with 3.1 million in 1980 and 4.2 million in 1988.)

Murphy drives a battered 1984 Volvo and still lives in a cluttered, four-bedroom house. She declines to reveal her income, but she has no trouble paying her bills and

GRIM TIMES IN THE GRANITE STATE MAY NOT HURT BUSH

Think you've got it bad? Check out New Hampshire. After riding sky-high in the 1980s, the state's economy is deadlier than a ten-point buck strapped to the hood of a pickup. According to DRI/McGraw-Hill, a Lexington, Massachusetts, economic forecasting firm, unemployment since 1988 has more than tripled, from 2% to 7%, and personal income has dropped 6.1%, vs. a minuscule rise nationally. Says Russell Thibeault, president of Applied Economic Research: "It used to be that the fast-food restaurants couldn't find people to work in them. Now they can't find people to eat in them."

In this predominantly Republican state, the only folks buying much of anything are the press, who flock here quadrennially to cover New Hampshire's presidential primary, the nation's first. A real estate crash—the worst since the Depression—has driven five of the state's seven largest banks out of existence. Zapped by the peace dividend, big defense contractors, like Lockheed-Sanders, are shedding workers. The rise of powerful desktop computers has minicomputer makers like Digital Equipment, the

state's largest employer, in a tailspin.

With all the glum news, you'd think New Hampshireites, who elected George Bush in 1988 by a wider margin than any other state east of the Mississippi, would be ready for a change. Don't bet on it. Neither Pat Buchanan's challenge nor the Democratic contenders appear to have sparked much enthusiasm.

Robert Giese, an unemployed engineer who was laid off by Lockheed over two years ago, explains why he and people like him still back Bush: "I blame our ills on Congress. Everything Bush has tried, Congress has stonewalled." Karl Norwood, a real estate developer battered by the recession, thinks the President has the best shot at pushing through a capital gains cut and other tax incentives that could help revive the state's economy.

Just because most New Hampshire Republicans don't blame Bush doesn't mean they're doing backflips over his candidacy. Says Dana Lewis, who sells uniforms to the police and fire departments and whose business has shrunk 25% over the past few years: "I'm voting for Bush only for lack of a better candidate." Sorry, Pat.

Local Democrats are just as luke-

warm about their crowd. Marcia Landsman, a director of a day care center in Nashua, New Hampshire, complains that none of the party's candidates care enough about issues like abortion and health insurance. By default, Landsman says she'll probably vote for Bill Clinton or Tom Harkin. At a dinner with some New Hampshire Democrats, the mood was even more somber. Said one: "I'm writing in New York Governor Mario Cuomo." Another disagreed: "I'm writing in Ralph Nader."

The most profound and perhaps the most popular political belief among citizens of the Granite State is the philosophical view that government isn't likely to solve their problems. Instead they look to emerging industries like biotechnology and telecommunications to lift the state out of its slump. It will take time, though, before such industries grow big enough to replace the lost jobs. In January fast-growing Cabletron, a Rochester, New Hampshire, maker of computer network equipment, announced openings for 36 engineering jobs. Next day, 1,600 applicants lined up in the snow, searching for a little warmth.

—Brian Dumaine

has made other lives better along with her own. "My buildings are super-clean, which has an impact on those around them," says Murphy. "A guy across the street told me the other day he was getting rid of junk to make his place look better."

Who has lost ground over the past dozen years? The dismal corollary to education equals prosperity is this: The less schooling you have, the farther you are likely to have fallen. Levy calculates that the incomes of those with only a high school education, Terry Biddle and his friends, have dropped 16% since 1980.

In the 1950s and 1960s blue-collar workers were closing the pay gap that separated them from those with pricey diplomas. Well into the 1970s, manufacturing jobs were so plentiful that a lathe operator who was let go in the morning could pack his calipers and be hired somewhere else in the afternoon.

But in the 1980s the gap widened to a chasm, opened up by the crowbar of global competition. Computers and telecommunications have multiplied the value of Donald Schwartz and his colleagues by making it easy to gather and sell information anywhere. At the same time low-wage toilers from Mexico to India have underbid the labor of workers like Biddle, who have no special skills to peddle. (For more on where the good jobs will and won't be, see the following story.)

According to Marvin Koters, an economist at the American Enterprise Institute, an American college graduate with ten years in the workplace made 30% more than a high school graduate with similar experience in 1980. By the end of the decade that spread had grown to 60%. "This country isn't going anywhere with people like us making these wages," says Biddle. "We can't afford to buy new cars. About 70% of what we sell at the dealership is used." To supplement their income, Linda works a few hours a week at Burger King.

How will individual experiences translate into votes on Election Day? "Anybody but Bush," snaps Linda Biddle, predictably. Nor is it surprising that Terry Roberts of Fort Worth may break with long habit and vote for a Democrat. In 1980 Roberts owned a very profitable executive search firm that scouted talent for oil field equipment companies. When energy prices crashed the fol-

lowing year, Roberts's business collapsed.

He soldiered on in less rewarding jobs. Last month, with the Fort Worth economy sagging, Roberts lost his \$36,000-a-year position managing promotional events for Miller beer. At 51 he is nervously groping for the next strut on the wing. "I'm a Republican, but the party isn't helping those that put them in office," he says. "It could be that we need some New Deal programs."

"We let the troubles of GM and IBM flavor our feelings. Our future is entrepreneurs."

Still, many who have struggled through the decade—or are just worried now—aren't necessarily going to punish George Bush for their troubles. A lot of them are inclined to spread the blame around—on the Democratic Congress, on themselves (for dropping out of school), and on inept business leaders. The stumbling of the mighty—such blue-blooded titans as Citibank, General Motors, IBM, and Macy's—has convinced many Americans

that huge corporations are not too big to fail but too big to succeed.

"We let the troubles of companies like GM and IBM flavor our feelings about everything," says Pittsburgh architect John E. Kosar, who is buoyant even though the lack of office construction in the past several years has shrunk his firm from 300 employees to 250. "There are tremendous opportunities in this country. Our future is entrepreneurs."

MAKE THAT well-educated entrepreneurs, and you've identified the key to ensuring that more Americans will be able to answer yes to the real question facing the country—will you be better off in 1996, in 2000, and beyond? The message is getting through. "When my brother graduated from college 11 years ago, it was mostly partying," says Brian Bair. Bair is student body president at Washington and Jefferson College, a small liberal arts school outside Pittsburgh where the unemployment rate among last year's graduating class is 12%, up from 5% or less a few years ago.

"Do I envy my brother?" he asks. "No. I like the world the way it is now. It presses us more, but that's not bad." Brian's right. If millions of Americans study and train to be a little better off—and if political and business leaders forge policies that encourage them to do so—the country will get richer too. ■

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AMERICA'S TOUGH NEW JOB MARKET

Look for plenty of opportunity but less security. More people will work in small companies and at home. Those who get the good jobs will be skilled—and adaptable. ■ by Louis S. Richman

THE GREAT American Job Machine, which put 18 million more people to work between 1982 and 1990, is stuck in the mud. Employment losses in the recession have been modest compared with those during the far deeper slump of the early 1980s. But people sense that prospects for finding secure, good-paying new jobs will be different afterward, and they are right. "What we are witnessing is not just the playing out of an economic cycle but a sea change," says William J. Morin, chairman of Drake Beam Morin, the nation's largest employee outplacement firm.

The recession has accelerated and broadened the corporate restructuring that began in the mid-1980s. An estimated 1.6 million jobs have been lost to date—a record proportion of them managerial and white collar. Dan Lacey, who tracks staff reductions as the head of the Workplace Trends consulting firm, calculates that 680,000 of those were the result of downsizing. He predicts the pace will quicken through 1992 and will continue long after the economy begins to recover.

Companies are not just laying off—they are flattening their organizations and shrinking payrolls to a core of highly productive primary employees. The trend will be especially pronounced among service companies, which face the same drive for higher productivity that reshaped much of manufacturing in the 1980s.

These days, only health care and business services are adding to the total supply of jobs. Many of the two million new civilian and military jobs created by the Reagan defense buildup are fast disappearing. Troop strength will be cut by 638,000, including reservists, and civilian Defense Department employees by 180,000. Cutbacks to suppliers could cost another 652,000 manufacturing and service jobs through 1994,

REPORTER ASSOCIATE John Labate



These people in Atlanta are among 500 leased workers at Home Corp., a property management firm.

according to the Manufacturers' Alliance for Productivity and Innovation, a Washington research group.

In this tough new marketplace, more and more of the employed will face permanent uncertainty about their security. The unemployed will find fewer new jobs similar to the ones they have lost. And relocating will be hard for the growing number of aging baby-boomers who are settled into homes, neighborhoods, and school districts.

Many people will go to work for smaller companies, including contractors providing specialized services to other companies. Some will be consigned to the "contingent work force," where job security and a steady paycheck will be problematic. More Americans will opt for—or be pushed into—self-employment. The watchwords for all workers: Get as much education as you can, hone your skills, and polish your résumé.

STILL, the economy of the 1990s will create plenty of work (see charts). The flywheels that propel America's job machine remain in good working order—an open labor market with few European-style legal barriers that block the free movement of workers, and a culture that rewards risk taking and entrepreneurship. All that is missing is the lubricant of economic growth. But the Bureau of Labor Statistics (BLS) estimates that if GNP expands by a modest 2.3% annually, the U.S. in the next 13 years will create some 25 million new jobs, raising the number of the employed to 147 million. Many skilled workers will be in short supply, including engineers, computer scientists, and physical therapists.

The employment mix the BLS projects will mirror the trends of the past 15 years. Most categories of factory jobs will continue to decline. Manufacturing will require some 600,000 fewer workers to maintain its current 34% share of total GNP. Still, replacement hiring will fill some 4.8 million skilled production positions. Even slow-growth occupations, such as machining and material handling, will offer abundant opportunities.

More and more of tomorrow's jobs will require people who are not only skilled but also adaptable and able to keep learning. One prototype is the high-performance work force program now in place at eight General Mills plants. The Minneapolis food giant is rebuilding its production systems around self-managing teams. Each factory worker is expected to master every stage of the manufacturing process and to



Cisco Systems, which makes computer networks, employs as many engineers as production workers.

be able to trouble-shoot equipment breakdowns or bottlenecks. Team members set their own production schedules and help select a leader from their ranks. Those leaders, along with a plant supervisor, are all the management a plant generally needs. General Mills' factories used to have five layers of managers. The company estimates that the team approach increases productivity by as much as 40%.

Technical aptitude is just the starting point for job candidates. The company puts them through a battery of focused interviews to find the few self-motivated team players able to grow with the job. When General Mills last year staffed a new cereal factory in Covington, Georgia, it screened 4,000 applicants to get the 100 it wanted. In the past the ratio of applicants to hires typically ran 5 to 1.

YOUNG COMPANIES are starting out lean and staying that way. Seven-year-old Cisco Systems of Menlo Park, California, shows just how few hands—and what kind—the factory of tomorrow will need. The number of manufacturing workers at the fast-growing maker of computer network systems has multiplied tenfold over the past three years but still constitutes less than a quarter of Cisco's payroll of 619, which is top-heavy with engineers and computer scientists.

Says CEO John P. Morgridge: "We're extremely cautious about expanding personnel because it's so demoralizing to correct when you overhire."

Cisco keeps its head count low by subcontracting nearly all subassemblies, mostly to the U.S. factories of other Silicon Valley manufacturers. It relies on strategic partnerships with three electronics distributors that serve as its purchasing department and control most of its inventory. The few production hands are seamlessly interwoven into every vital function. Some 15% work full-time with new-product design engineers to smooth the transition from the time a product is conceived to initial production, a practice known as concurrent engineering. Says David Ring, vice president of manufacturing: "Everyone here is a problem solver. Our job is not simply to put products together and get them out the door but to figure out how to do it better."

Most production workers are graduates of vocational schools. "We want people who have an uncommon pride in their work and a sense of adventure," says Ring. That spirit gets rewarded well. Experienced new hires often start at \$30,000 a year, all employees receive stock options, and Cisco matches employee pension plan contributions. Productivity of the Cisco kids is off the charts. Sales per worker have grown at a 30% rate compounded annually since

1988, to \$484,000 now—better than twice the average of its competitors.

The same drive for productivity and quality will shape service sector employment. As in the 1980s, services will continue to account for all net new jobs, according to the BLS. But companies that staffed up in the past with armies of low-level workers will replace them with fewer skilled and well-educated employees.

TAKE THE mail-order division of Diagnostek, a nine-year-old health care company in Albuquerque. The staff of 60 pharmacists and 250 pharmacy technicians dispatch medications for insurance companies, corporate retiree health programs, and labor unions to about 8,000 consumers daily. Diagnostek's pharmacists, earning some \$43,000 annually, concentrate exclusively on prescribing drugs, mostly low-cost generics, which the company buys in bulk from manufacturers. That's a far more efficient use of these pro-

fessionals' skills than in the corner drug-store, where they often have to worry about keeping shelves stocked with everything from arch supports to witch hazel. Increasing the productivity of pharmacists is an urgent matter: The SRI International consulting firm estimates that the current shortage of some 17,000 trained pharmacists will double in the next 15 years.

The technicians are typically high school graduates, who earn \$12,000 to \$24,000 depending upon skills and responsibility. They bottle and label the shipments. Diagnostek and a few similarly streamlined competitors dispense some 10% of all maintenance prescriptions nationally, a market share that is projected to nearly double by 1995 (see Managing).

Small companies generated at least half of American jobs in the 1980s and will play an ever bigger role in the 1990s. "The baby-boom generation is entering its peak entrepreneurial years," says David L. Birch, president of Cognetics Inc., an economics

research firm in Cambridge, Massachusetts. "There hasn't been a decade in living memory when the population of potential entrepreneurs has been bigger."

Most of the jobs will be in the service sector, from consulting to carpet cleaning. But don't underestimate the potential for manufacturing. Birch estimates that small businesses' share of total manufacturing employment rose from 22% to 36% over the past decade. He looks for them to keep raising their share in the 1990s, though like big companies they will do anything they can to avoid adding excess employees. "A decade ago people were cheap and technology was expensive," says Birch. "For the skilled workers businesses need today, the reverse is true."

COMPANIES large and small will be practicing what Joseph Gibbons, a senior consultant for Towers Perrin, calls "just-in-time hiring." Outside contractors will supply them with everyone from order processors to the extra hands needed during peak periods. Example: Like many major systems subcontractors, the aerospace group of Parker Hannifin Corp. in Irvine, California, faces periods of flat-out production alternating with idle spells. Over the past two years it has tried to stabilize its core Irvine work force at about 3,000 under a "quality hire" program to lift the qualifications of all its workers.

The swing workers now come from Olsten Group, a Long Island-based temp outfit. An Olsten manager who works full-time at the Irvine plant coordinates the placement of temps—from secretaries working for a day to systems engineers on assignments lasting several months. The close oversight ensures that the right workers are assigned to the right jobs from the start. Because they are recruited from a single supplier who understands the qualifications Parker Hannifin wants, they are better able to learn their jobs and fit into the company's culture. And Olsten tries to hold on to its seasoned people by finding them work elsewhere during the downtime.

Smaller companies are moving to "staff leasing," in which an outside specialist essentially becomes a contract human resources department. Some one million workers are employed by such contractors, and the number is rising fast.

Here's how staff leasing works. Home Corp. is a fast-growing Montgomery, Alabama, owner and manager of upscale

OCCUPATIONS THAT WILL GROW FASTEST...

Occupation	Employment, in thousands		Change
	1990	2005	
Home health aides	287	550	92%
Paralegals	90	167	85%
Systems analysts and computer scientists	463	829	79%
Personal and home care aides	103	183	77%
Physical therapists	88	155	76%
Medical assistants	165	287	74%
Operations research analysts	57	100	73%
Human services workers	145	249	71%
Radiologic technologists and technicians	149	252	70%
Medical secretaries	232	390	68%

...AND THOSE THAT WILL GROW THE MOST

Occupation	Employment, in thousands	
	1990	2005
Retail salespersons	3,619	4,506
Registered nurses	1,727	2,494
Cashiers	2,633	3,318
Office clerks	2,737	3,407
Truck drivers	2,362	2,979
General managers and top executives	3,086	3,684
Janitors, cleaners, and housekeepers	3,007	3,562
Nursing aides, orderlies, and attendants	1,274	1,826
Food-counter, fountain, and related workers	1,607	2,158
Waiters and waitresses	1,747	2,196

SOURCE: BUREAU OF LABOR STATISTICS



Diagnostek's pharmacists do one thing very well: compounding medicines for mail-order customers.

apartment complexes in ten states. With each property requiring an average of ten workers in an industry where employee turnover is high, Home Corp. faced huge staff management problems. Instead of adding as many as five full-time personnel managers to its 11-employee headquarters staff to handle the ballooning head count, Home executive vice president Michael Goldner contracted Action Staffing, a staff-leasing outfit in Tampa, to do the job for him. Today all 500 of the workers who man the properties are Action Staffing employees, from minimum-wage grounds-keepers to \$32,000-a-year resident managers.

Home Corp. pays all wages and benefits to Action Staffing, which distributes them. For its administrative fee, which runs about 5% of total payroll, Action also handles all quarterly tax, unemployment insurance, and workers' compensation payments. That responsibility, which Goldner describes as a "monumental headache," is easy for Action Staffing. Operating in 35 states, it is familiar with the bureaucracies of each.

Action Staffing can achieve big economies of scale. It provides some 11,200 leased workers to 600 companies, giving it powerful leverage to negotiate favorable group health insurance rates. Home Corp.'s premiums would otherwise run far

higher than the \$120 monthly rate per worker it pays. Action also has a preferred workers' compensation rating that lowers costs. And at its headquarters, human resources professionals and labor law specialists can advise clients on the intricacies of equal opportunity employment practices and workers' comp claims. In addition to a fully employer-paid health care and disability package, Action offers a 401(k) pension plan.

Perhaps the most profound change lying ahead will be a shift to self-employment.

THE ECONOMY

Link Resources, a New York market research firm that tracks the work-at-home business, calculates that the self-employed now total some 22 million—about 18% of the labor force—and grew at an average annual 12.7% since 1989.

The numbers, which include part-timers or moonlighters with a home business to supplement income, are bound to expand significantly as companies outsource jobs. Of course, many people prefer working for themselves. Two-earner families with a stable primary income to fall back on often welcome the opportunity to spend more time with their day-care-warehoused kids. Lacey of Workplace Trends describes the more casual attachment of the self-employed who will work for several clients on a project-by-project basis as the "Californization" of work. The self-employed network their way to opportunity through endless informal contacts.

Low-cost high tech is giving self-employment a big lift. Powerful personal computers, data networks, high-speed laser printers, desktop copiers, and inexpensive fax machines now cost little more than a television. A self-employed executive can outfit a home office for less than \$5,000.

But when she does, what will she do—and how much can she earn? Debora Kane, 41, didn't have a clue in 1988 when the investment banking slump eliminated her \$50,000-a-year job as a computer systems specialist for Goldman Sachs in New York. Further complicating matters, she and husband Lloyd, a vice president at Citicorp, had just bought their first home and were new parents of 4-month old daughter Susannah.

continued

JOBS FOR MANAGERS AND PROFESSIONALS

Occupation	Rate of increase, 1990-2005	Median weekly earnings (1990)*
Mathematical and computer scientists	73%	\$734
Registered nurses and other health therapists	43%	\$600
Lawyers and judges	34%	\$1,052
Primary, secondary, and special education teachers	30%	\$522
Health diagnosticians	29%	\$824
Executives, administrators, and managers	27%	\$604
Engineers	26%	\$809
Natural scientists	26%	\$661
Technical specialists	23%	\$509
College and university teachers	19%	\$747

*Excludes self-employed

SOURCE: BUREAU OF LABOR STATISTICS

THE ECONOMY

As her search for a new job floundered, Kane fell back on her skills; she began teaching computer neophytes how to use applications programs, finding freelance work through friends and former colleagues. Soon she conceived the idea of building her own business. Both to get steady income and to learn the ropes, she worked part-time for small companies that specialized in computer training programs for corporations. Expropriating the spare bedroom as her personal corporate headquarters, she formed PC Basics in July 1989.

With a marketing plan based on the approach of her part-time employers, Kane first targeted banks and financial services companies, but the field was too crowded with competitors. So she went after small businesses, hospitals, and non-profit organizations through advertisements in a local business newspaper. With repeat business and referrals to new clients, her business is beginning to snowball. By next year she expects to be grossing about what she earned at Goldman Sachs, and she is considering hiring an assistant. Says she: "Having more business than I can handle alone is becoming a problem."

IS THERE a role for public policy in the forthcoming restructuring of the American workplace? You bet. The list starts with removing obstacles to the new and small enterprises that will be so crucial to job formation. Runaway health care inflation, soaring workers' compensation costs, and endless new government regulations threaten small businesses.

So do local impediments, some of them ludicrous. Most zoning laws restrict commercial activity that draws traffic to residential neighborhoods. But Los Angeles bans all home-based business, and under pressure from companies with which home enterprises compete, the city council last year quietly buried a proposal to amend the ordinance. An ancient artifact in Chicago's zoning regulations prohibits the use of typewriters (or computers) for commercial purposes in the home. "These cities are shooting themselves in the foot," says Paul Edwards, who with wife Sarah runs the Working From Home Forum from their



Entrepreneur Debora Kane and offspring: Susannah, 3, and PC Basics, 2½.

townhouse in Santa Monica, California, providing information and networking for the self-employed. "They are forcing home-based workers, who would otherwise pay taxes, to operate illegally or leave."

The biggest deterrent is access to affordable health care. People who are not covered through group policies provided by the employer of a working spouse can face premiums of more than \$1,000 a month—or do without. Says Edwards: "Many of the self-employed spend nearly as much of their time shopping for health insurance they can afford as they do running their businesses." Qualifying the self-employed as members of broad risk groups would help to reduce policy costs, but a true solution awaits comprehensive health care reform.

No matter where they work, Americans will need higher skills than ever before. Economist John H. Bishop of Cornell University estimates that the growth of high-skill occupations will leave the U.S. short some 2.2 million college graduates by 2000. Unless immigrants fill the gap, the country will have to find more ways to make college affordable.

Better secondary education is no less critical. The most conspicuous gear missing from the 1990s-model Job Machine is the one that used to provide good work for the unskilled. These people, their living standards battered in the 1980s, can expect

even worse times ahead. The BLS projects that many occupations where poorly educated workers have found jobs will contract sharply. For example, demand for private household workers—half of whom lack a high school diploma—is forecast to shrink by 2005. Other declining low-skill jobs include garment work, meatcutting, and pumping gas. Occupations the bureau expects to grow pay too little to support a family. The Labor Department forecasts that the food service industry will add 30% more jobs—short-order cooks, dishwashers, and the like—yet employees' median weekly pay was a meager \$220 in 1990. Arnold Packer, who heads the Labor Department's education and skills commission, calculates that the percentage of black men with a high school diploma able to support a family of four by holding such jobs has fallen from 80% in 1969 to 59% today.

REMEDIES will be hard to find. Education reform is essential, but not enough by itself. Most of today's high school students, the victims of past educational malpractice, are already in the work force. Their main hope now lies in more training—a task business can handle with a bit of help. One promising approach: John Bishop suggests that Congress pass a training tax credit akin to credits for boosting investment in plant and equipment. Companies could deduct some portion of expenditures beyond a minimum threshold from their corporate taxes. The higher productivity and wages of the better-educated workers, he thinks, would make up most of the revenue loss to the Treasury and reduce the need for expensive government-paid retraining programs to ease the transition of displaced workers to new jobs.

Unless attention is paid to lifting the skills of all workers, America's biggest worry as it emerges from the recession will not be job growth but a worsening economic polarization. In the 1990s the Great American Job Machine—and the society as a whole—will purr only if it is powered by the higher-octane fuel of a trained and flexible work force. F